



A Registered Limited Liability Partnership

**Attorneys At Law**

*Established 1916*

www.hsdllaw.com

**PLEASE RESPOND TO:**  
KINGSPORT OFFICE

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AMEP/Z.80669

**VIA FEDERAL EXPRESS**

The Honorable Pat Miller, Chairman  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243-0505

**Re: Petition of Appalachian Power Company for Approval of Refinancing and  
New Financing  
TRA Docket No. 04-00371**

Dear Chairman Miller:

On October 22, 2004, we filed a Petition on behalf of Appalachian Power Company seeking approval of the Authority for Appalachian Power to engage in certain financings. As you are aware, Appalachian does run lines into Tennessee to supply power to Kingsport Power Company and is regulated by the Authority relative to its Tennessee activities.

The staff of the TRA indicated to us when the Appalachian petition was filed that it was likely the Authority would not act until the companion petition pending before the Virginia State Corporation Commission was approved.

On November 30<sup>th</sup> the Virginia Commission approved Appalachian's financing petition. We have supplied copies of this Order to the Authority previously but include a copy with this letter. This financing by Appalachian will not adversely impact Kingsport Power Company as established by our response to the Staff Data Request also attached hereto.

S. Morris Hadden  
William C. Bovender  
William T. Wray, Jr.  
William C. Argabrite  
Jimmie Carpenter Miller  
Mark S. Dessauer  
Gregory K. Haden  
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December 15, 2004

Due to the fact that the Authority's next conference is not until January 10, 2005 and further due to the fact that it is necessary for Appalachian to close on this financing as soon as possible in January so as to avoid increased financing costs, we respectfully request that the Authority consider granting Appalachian's petition in advance of the January 10, 2005 conference.

We would certainly be willing to answer any formal or informal data requests or queries, if any, that you or the other Directors may have, immediately, so as to insure that the closing can occur expeditiously. We recognize this is an unusual request, but given the circumstances, we felt it best to go this route if it is the will of the Directors to approve Appalachian's Petition in advance of the next conference.

Thank you in advance for your time and consideration in this matter. Best wishes for a Happy Holiday Season.

Very sincerely yours,

**HUNTER, SMITH & DAVIS, LLP**



William C. Bovender  
Counsel for Appalachian Power Company

WCB/pl

Enclosures

cc: The Honorable Deborah Taylor, Director w/enclosures (Via Federal Express)  
The Honorable Sara Kyle, Director w/enclosures (Via Federal Express)  
The Honorable Ron Jones, Director w/enclosures (Via Federal Express)  
Aster Adams w/enclosures (Via Federal Express)  
David McClanahan w/enclosures (Via Federal Express)



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**VIA FEDERAL EXPRESS**

Ms. Sharla Dillon, Docket Room Manager  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243-0505

**Re: Petition of Appalachian Power Company for Approval of Refinancing and  
New Financing  
TRA Docket No. 04-00371**

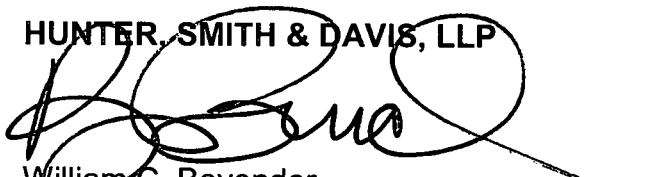
Dear Ms. Dillon:

Pursuant to your request, enclosed herewith are 13 copies of the letter to Chairman Pat Miller, dated December 15, 2004, and all attachments.

If you have any questions, please do not hesitate to call.

Very sincerely yours,

**HUNTER, SMITH & DAVIS, LLP**



William C. Bovender  
Counsel for Appalachian Power Company

WCB/pl

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December 16, 2004

Ms. Sharla Dillon

Page 2

December 16, 2004

Enclosures

cc: Aster Adams w/out enclosures  
David McClanahan w/out enclosures

COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION

041140098

AT RICHMOND, NOVEMBER 30, 2004

APPLICATION OF

APPALACHIAN POWER COMPANY

CASE NO. PUE-2004-00122

For authority to receive cash  
capital contributions from an  
affiliate

2004 NOV 30 P 4:09

DOCUMENT CONTROL

ORDER GRANTING AUTHORITY

On October 20, 2004, Appalachian Power Company ("APCO" or the "Company") and American Electric Power Company, Inc. ("AEP"), jointly filed an application with the State Corporation Commission ("Commission") under Chapter 4 of Title 56 of the Code of Virginia requesting authority for AEP to make cash capital contributions to APCO from time to time prior to January 1, 2007, up to an aggregate amount of \$200,000,000.

APCO states that the proceeds of such capital contributions will be applied to the Company's construction program, to repay short-term debt, and for other proper corporate purposes. APCO also states that there will be no costs allocated or charged for such capital contributions and that they will help provide an adequate equity component in managing a favorable capital structure for APCO.

THE COMMISSION, upon consideration of the application and having been advised by Staff, is of the opinion and finds that approval of the application will not be detrimental to the public interest. Accordingly,

**IT IS ORDERED THAT:**

- (1) APCO is hereby authorized to receive cash capital contributions from AEP, at AEP's discretion, from time to time prior to January 1, 2007, up to an aggregate amount of \$200,000,000.
- (2) Within sixty (60) days after the end of each calendar quarter in which any of the cash capital contributions are received pursuant to Ordering Paragraph (1), Applicant shall file

with the Commission a detailed Report of Action to include all cash capital contributions received during the calendar quarter by amount and date, along with a corresponding quarter ended balance sheet that reflects such contributions.

(3) Applicant's Final Report of Action shall be due on or before March 1, 2007, to include the information required in Ordering Paragraph (2) in a cumulative summary of actions taken during the period authorized.

(4) Approval of the application shall have no implications for ratemaking purposes.

(5) Approval of this application does not preclude the Commission from applying the provisions of § 56-78 and § 56-80 of the Code of Virginia hereafter.

(6) The Commission reserves the right to examine the books and records of any affiliate, whether or not such affiliate is regulated by this Commission, in connection with the authority granted herein, pursuant to section 56-79 of the Code of Virginia.

(7) This matter shall be continued, subject to the continuing review, audit, and appropriate directive of the Commission.

AN ATTESTED COPY hereof shall be sent to Applicant, to the attention William E. Johnson, Attorney, American Electric Power, 1 Riverside Plaza, Columbus, OH, 43215-2372; and to the Commission's Division of Economics and Finance and Public Utility Accounting.

A True Copy  
Tested  
*Joel H. Peck*  
Clerk of the  
State Corporation Commission

## STATE CORPORATION COMMISSION

AT RICHMOND, NOVEMBER 30, 2004

2004 NOV 30 P 4: 26

DOCKET CONTROL

APPLICATION OF

APPALACHIAN POWER COMPANY

CASE NO. PUE-2004-00123

For authority to incur  
long-term debt

ORDER GRANTING AUTHORITY

On October 21, 2004, Appalachian Power Company ("APCO", or "Applicant") filed an application with the Virginia State Corporation Commission ("Commission") under Chapters 3 and 4 of Title 56 of the Code of Virginia for authority to issue long-term debt to the public and to an affiliate. In conjunction, Applicant requests authority to enter one or more interest rate hedging arrangements to protect against future interest rate movements in connection with the long-term debt securities to be issued. Furthermore, APCO requests authority to utilize interest rate management techniques by entering into various Interest Rate Management Agreements ("IRMAs"). Applicant has paid the requisite fee of \$250.

APCO proposes to issue secured or unsecured promissory notes ("Notes") up to the aggregate principal amount of \$950,000,000 from time to time through December 31, 2005. The Notes may be issued in the form of First Mortgage Bonds, Senior Notes, or other unsecured promissory notes. Within certain limitations, APCO requests flexibility to select specific terms and conditions for the Notes based on market conditions at the time of issuance. The Notes will have maturities of not less than 9 months and not more than 50 years. The interest rate may be fixed or variable. The fixed rate of any note shall not exceed by more than 350 basis points the yield to maturity on United States Treasury obligations of comparable maturity at the time of pricing of the Notes. The initial interest rate on any variable rate Note will not exceed 10% per annum.

APCO requests authority to issue up to \$200,000,000 out of the \$950,000,000 aggregate principal amount of Notes to its parent company, American Electric Power Company, Inc. ("AEP"), through one or more unsecured Notes. APCO states that the interest rates on any Notes issued to AEP would parallel AEP's cost of capital in accordance with the Public Utility Holding Company Act of 1935, as amended ("PUHCA"). However, the Notes will only be sold to AEP if their effective cost is lower than or equal to the effective cost of an unsecured Note of similar terms and tenor sold to non-affiliated entities.

APCO intends to sell the Notes (i) by competitive bidding; (ii) through negotiation with underwriters or agents; (iii) by direct placement with a commercial bank or other institutional investor; or (iv) to its parent company, AEP. Issuance costs are expected to be less than 1.0% of the principal, with no costs incurred on Notes issued to AEP. The proceeds from the issuance of the Notes will be used to redeem, directly or indirectly, long-term debt; to refund, directly or indirectly, preferred stock; to repay short-term debt; to reimburse APCO's treasury for construction program expenditures; and for other proper corporate purposes. If it is found to be cost advantageous, proceeds from the issuance of the Notes may be used for the early redemption of up to \$45,000,000 of APCO's First Mortgage Bonds, 8.0% Series due 2025, which becomes eligible for early redemption at 1.04% of the principal amount on June 1, 2005.

In conjunction with the issuance of the proposed securities, Applicant requests authority, through December 31, 2005, to enter into one or more interest rate hedging arrangements to protect against future interest rate movements in connection with the issuance of the Notes. Such hedging arrangements may include, but not be limited to, treasury lock agreements, forward-starting interest rate swaps, treasury put options, or interest rate collar agreements ("Treasury Hedges"). All Treasury Hedges will correspond to one or more of the Notes. Consequently, the cumulative notional amount of the Treasury Hedges cannot exceed \$950,000,000.

Finally, APCO requests a continuation of the authority granted in Case No. PUE-2004-00003 to utilize interest rate management techniques and enter into IMRAs through December



31, 2005.<sup>1</sup> The IRMAs will consist of interest rate swaps, caps, collars, floors, options, hedging forwards or futures, or any similar products designed and used to manage and minimize interest costs. IRMA transactions will be for a fixed period and based on a stated principal amount that corresponds to an underlying fixed or variable rate obligation of APCO. APCO will only enter IRMAs with counterparties that are highly rated financial institutions. The aggregate notional amount of the IMRAs outstanding will not exceed 25% of APCO's existing debt obligations.

THE COMMISSION, upon consideration of the application and having been advised by its Staff, is of the opinion and finds that approval of the application will not be detrimental to the public interest. We will approve the application subject to the terms and conditions detailed herein.

Accordingly, IT IS ORDERED THAT:

(1) Applicant is hereby authorized to issue and sell up to \$950,000,000 of Notes, from time to time during the period January 1, 2005, through December 31, 2005, for the purposes and under the terms and conditions set forth in the application.

(2) Notes issued in accordance with Ordering Paragraph (1) for the purpose of refunding maturing debt are limited to the aggregate principal amount of \$530,000,000, while remaining Notes may be issued to increase outstanding debt or for the early redemption of existing debt, when it is cost effective and interest savings can be demonstrated.

(3) Applicant is hereby authorized to issue and sell up to \$200,000,000 of the total \$950,000,000 authorized in Ordering Paragraph (1) to AEP, provided that the effective cost of such Notes is lower than or equal to the effective cost of an unsecured Note of similar terms and conditions sold to non-affiliated entities.

(4) Applicant is authorized to enter into the hedging agreements for the purposes set forth in its application and to the extent that the aggregate notional amount outstanding does not to exceed \$950,000,000 during the period January 1, 2005 through December 31, 2005.

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<sup>1</sup> Pursuant to the Commission's Order Granting Authority, dated February 11, 2004, in Case No. PUE-2004-00003, APCO's existing authority to utilize IRMAs is set to expire after December 31, 2004.

(5) Applicant is authorized to enter into IRMAs for the purposes set forth in its application and to the extent that the aggregate notional amount outstanding does not exceed 25% of Applicant's total outstanding debt obligations during the period January 1, 2005, through December 31, 2005.

(6) Applicant shall not enter into any IRMA or hedging transaction involving counterparties having credit ratings of less than investment grade.

(7) Applicant shall submit a preliminary Report of Action within ten (10) days after the issuance of any debt pursuant to this Order to include the type of debt, the issuance date, the amount of the issue, the interest rate, the maturity date, and any securities retired.

(8) Applicant shall submit a preliminary Report of Action within ten (10) days after it enters into any hedging agreement or IRMA pursuant to Ordering Paragraphs (4) and (5) to include: the beginning and, if established, ending dates of the agreement, the notional amount, the underlying securities on which the agreement is based, an explanation of the general terms of the agreement that explain how the payment obligation is determined and when it is payable, and a calculation of the cumulative notional amount of all outstanding IRMAs as a percent of total debt outstanding.

(9) Within 60 days after the end of each calendar quarter in which any debt is issued pursuant to this Order, Applicant shall file a more detailed Report of Action to include: the type of debt issued, the date and amount of each series, the interest rate, the maturity date, net proceeds to Applicant, an itemized list of expenses to date associated with each issue, a description of how the proceeds were used, a list of any securities retired with a corresponding analysis to demonstrate the cost savings associated with the refunding, a list of all hedging agreements and IRMAs associated the debt issued, and a balance sheet reflecting the actions taken.

(10) Applicant's Final Report of Action shall be due on or before March 1, 2006, to include the information required in Ordering Paragraph (9) in a cumulative summary of actions taken during the period authorized.

- (11) The authority granted herein shall have no implications for ratemaking purposes.
- (12) Approval of this application does not preclude the Commission from applying the provisions of § 56-78 and § 56-80 of the Code of Virginia hereafter.
- (13) The Commission reserves the right to examine the books and records of any affiliate, whether or not such affiliate is regulated by this Commission, in connection with the authority granted herein, pursuant to §56-79 of the Code of Virginia.
- (14) This matter shall remain under the continued review, audit, and appropriate action of this Commission.

AN ATTESTED COPY hereof shall be sent to Applicant, to the attention William E. Johnson, Attorney, American Electric Power, 1 Riverside Plaza, Columbus, OH, 43215-2372; and to the Commission's Division of Economics and Finance and Public Utility Accounting.

A True Copy  
Tested:   
Clerk of the  
State Corporation Commission